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C O N F I D E N T I A L SECTION 01 OF 04 BRASILIA 001859

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FOR WHA ASSISTANT SECRETARY SHANNON FROM AMBASSADOR SOBEL

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TAGS: PREL BR

SUBJECT: A LEGACY AND A FUTURE -- INITIAL OBSERVATIONS ON BRAZIL - U.S RELATIONS

REF: A. BRASILIA 1784
B. BRASILIA 1722
C. BRASILIA 1670

Classified By: POLITICAL COUNSELOR DENNIS HEARNE. REASONS: 1.4 (B)(D).

¶1. (SBU) In my first weeks in Brazil, I reached out to a wide group of government policy makers, political leaders, business representatives, leading journalists, and representatives of civil society. I found a remarkable interest in strengthening bilateral relations. I met early on with Foreign Minister Amorim and Lula's foreign policy advisor, Marco Aurelio Garcia, and also had highly productive discussions with Justice Minister Bastos, Lula's Chief of Staff for Policy Dilma Rousseff, Finance Minister Mantega, Trade Minister Furlan, Central Bank President Meirelles, Supreme Court President Ellen Gracie Northfleet, congressional leaders Renan Calheiros (Senate President) and Aldo Rebelo (Chamber of Deputies President) and former President Fernando Henrique Cardoso, among many others. I met with most of the CEOs of the largest U.S. and Brazilian companies, including the media companies.

¶2. (SBU) In these meetings, there emerged a number of key themes that I believe we must focus on going forward.

--Business and investment are on everyone's mind;

--There is a skepticism about the level of the U.S. commitment to Brazil and South America, and a lack of visibility in Brazil of the positive side of America -- and what we have done and what we can do;

-- The Lula government has been tensely balanced until now with a conservative fiscal policy on one end, and an ideologically leftist foreign policy on the other; questions abound as to whether this will change in a second Lula government, and whether there are ways to shift the balance in a promising way. (Bio-fuels may be one important tool for doing this.)

Business and Investment

¶13. (SBU) Across the range of my contacts with business, government, and political figures, I heard one message: There is a high degree of interest in increasing U.S. trade and investment, expanding existing commercial relations, and creating new public-private partnerships. This sentiment could even be heard from Dilma Rousseff, whose ideological history as a militant leftist would hardly suggest such an entrepreneurial spirit (see ref A). The energy is generalized, but often focused on specific questions of the moment.

¶14. (SBU) A common refrain, for example, was Brazil's desire to retain eligibility under GSP as the U.S. Congress debates renewal of the authorizing statute. After moving our way on copyright piracy over the past 18 months, under the threat of USG revocation of GSP, the Brazilians now believe that it is unfair to cast them out of the program because of unrelated factors. I am concerned that should we proceed down that direction, this could cast a shadow over the increasingly positive dialogue that we are constructing, and could play into the hands of the far left here. We need to keep flexibility on this, as GSP can be a powerful tool in the future. Many are also enthused about the Commercial Dialogue that Secretary Gutierrez and the Minister of Trade initiated in June, and the latter is seeking a return meeting with the Secretary in October. We are also looking forward to

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Treasury Secretary Paulson's visit, which will hopefully focus on more of the micro details of the Brazilian economy

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which Lula's government says would be their focus in a second term.

¶15. (SBU) There is also an increase in investments between Brazil and the U.S. with Petrobras, Embraer, steel, construction and textiles firms all playing major roles. The increasing importance of large industrial companies -- both U.S. and Brazilian -- cannot be overstated. Just recently, Lula reached out to 25 of the largest companies at a dinner that included American companies. Large Brazilian companies (e.g., Petrobras) are interested in IPR and international tax treatment. In the future they will begin to change the balance of the debate. Many large companies also are voicing their deep concern about Venezuela's participation in Mercosul. I believe we should be able to leverage the concerns of these companies to effect salutary changes in policy in a GOB that is ever more attentive to the views of these powerful actors, the "stakeholders" in Brazil's economy.

Skepticism and Visibility

¶16. (SBU) There is skepticism here about the depth of U.S. commitment to its relationship with Brazil, and to the region as a whole. There is a related dearth of visibility on the positive side of America, of what America has done, including our historic concern for the common welfare and our tradition of corporate responsibility and community service. We should find ways to change these perceptions, focusing on specific projects and partnerships that demonstrate our commitment and genuine concern for Brazil's people.

¶17. (SBU) For example, we should be more engaged in Brazil's northeast, a region of more than 50 million people, with huge disparities in income distribution and a living standard below that of Bolivia. In fact, this region could be the second largest country in size and population in South America. We need to restore and energize our AID programs and work with our corporate community, which is already very much

engaged in corporate responsibility. A re-energized focus through USAID on health issues - especially TB, Malaria, and HIV-AIDS - would be one place to start, using our own direct action and seed money, and I believe we could then bring private sector partners in to multiply our impact.

¶8. (SBU) Crime is a perennial concern in this violent country and an area where we can have a significant impact. In my meeting with Justice Minister Bastos (ref B), he asked urgently when our Attorney General could come to Brazil, and this presents a sterling opportunity to both address a Brazilian plea for immediate assistance in dealing with their public security crisis, and to establish the basis for a regular consultative process, biannually, between our AG and the Justice Minister.

¶9. (SBU) Indeed, I am convinced that bringing high-level USG officials to Brazil can pave the way for dramatically enhanced cooperation, building a top-down momentum that can help Brazil address these critical democracy and stability issues, while changing perceptions that we are not committed or engaged. In addition to the AG visit, we could bring the DEA Administrator and an expert delegation to discuss crime and narcotrafficking. In fact, the Governor of Sao Paulo and the Mayor of Rio are also requesting high visibility visits from law enforcement officials. It is also important to maintain a regular schedule for our existing bilateral meetings, such as our P level political talks. U.S. Supreme Court Justices could bring their perspectives to Brazilian counterparts grappling with judicial reform.

Balancing Acts - Ideology, Pragmatism and Democracy

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¶10. (C) The conservative and pragmatic fiscal policy pursued successfully by Lula has been in tense balance with a foreign policy that is ideologically-skewed to the left, in strategic, trade and commercial issues. The south-south orientation that saw Brazil clumsily declare China a market economy, fumble its campaign for a permanent UNSC seat, and embark on dubious efforts to strengthen economic ties with Arab states and other marginal players at the expense of traditional relations with the U.S. and Europe, has established a foreign policy record that is tough to defend against attacks in the opposition and the media. There is some concern that Lula and his Amorim-led foreign policy team could, in a second term, radicalize Brazil's foreign policy further away from interests and partnerships that can best serve Brazil and our bilateral relationship. I believe we can help to diminish this risk by taking a practical approach that draws Brazil into collaboration with us in areas that clearly hold promise for both countries, such as energy and law enforcement.

¶11. (SBU) We need to get away from ideological labels and find common ground. A superb means for doing this is cooperation on bio-fuels. The Brazilians' view that bio-fuels represent a transformational technology in which they are global leaders is one we should embrace and use as the basis for cooperation on a strategic level. It is very evident to me that in research and development, in elaboration of poverty alleviation initiatives for third countries, and in building new multilateral fora for policy discussions, we have the potential to work closely with the Brazilians in bio-fuels. They want this, we want it, and it can potentially serve as a vehicle for improving bilateral relations across the board without any ideological considerations.

¶12. (SBU) There is a broad consensus that Brazil must continue to strengthen its already robust democracy, and, in the words of Presidential advisor Marco Aurelio Garcia, "bring the benefits of democracy to our poorest citizens." The sentiment is universal; however, the initial reaction to

Dr. Krasner's trip clearly illustrates the concerns of Brazil of being too aligned with American foreign policy interest (ref c). As Itamaraty Under Secretary for Political Affairs Antonio de Aguiar Patriota related to me: Brazil does not want to be stereotyped as being in "Our Camp." I think that a follow up trip, perhaps by Under Secretary Paula Dobriansky, that revisits the democratic governance issue will be more successful, if it is not perceived as exclusively an American policy initiative. We need to get away from labels that are seen as ideological, such as FTAA. What we need to do is progress incrementally, without labels, perhaps taking a slower approach that will eventually achieve our foreign policy objectives.

A Legacy and a Future

¶13. (SBU) Lula in a second term (should he win one) will be thinking of his legacy, his opponents will be looking toward the future, but most Brazilians seem to want many of the same things. It was interesting to talk to former President Fernando Henrique Cardoso about his interest in a grand coalition. President Lula clearly has an ability to build upon his economic achievements and perhaps redefine his government in a possible second term, without the need to balance it with a strongly ideological foreign policy. We cannot tell Brazilians how to shape their legacy and future, how to build up their democracy or bring in more investment or institute vital reforms, but we can offer our own experiences in relevant areas, and continue to press the

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message that their ability to build the prosperity they seek rides on achieving these changes. There are ways we can help, and in so doing, we also will bolster the bilateral relationship and our own vital interests.

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